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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Implementation of the	)	CC Docket
Pay Telephone Reclassification	)	No. 96-128
and Compensation Provisions of the	)	
Telecommunications Act of 1996	)	

AT&T Reply

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January 20, 1998

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AT&T Reply

Pursuant to Section 1.429 of the Commission's Rules, AT&T Corp. ("AT&T") hereby responds to the oppositions to and comments upon the petitions for reconsideration filed herein.[1]

Introduction and Summary

With the predictable exception of the payphone service providers ("PSPs"), the commenters -- especially the consumer commenters -- agree with AT&T that the per-call compensation rates established in the Second Report and Order are excessive, and that the only way to ensure a "fair" compensation rate is to use a bottom-up cost analysis that relies principally on the costs of LEC PSPs. Thus, they agree that the Commission should reconsider and revise the current payphone compensation rules, which are based on the false premise that there is an effective "market" that

[1] A list of the commenters and the abbreviations used to refer to each is attached as Appendix A.

can constrain the price of payphone access for coinless calls.

In particular, these commenters verified that there is no effective competition for payphone use at the specific locations, and at the specific times, when consumers want to make calls. Moreover, the commenters agree that there is no way to exert any market discipline on callers who place toll-free calls from payphones, because they neither know nor care about the costs that their calls will impose on others. Thus, there is no way that a "market-based" approach to payphone compensation could ever apply to the majority of compensable calls.

Despite the PSPs' general denials, they offer absolutely no evidence to rebut these established facts. Rather, the PSPs speak in platitudes about how the payphone market might become competitive at the end-user level. Further, they concoct inconsistent arguments that do not rebut the fact that the markets for local coin calls and coinless calls are independent goods, so that an avoided-cost analysis based on the market price for local coin calls is economically irrational -- as the LEC Coalition itself argued in its comments on remand.

The PSPs do not seriously dispute that a true bottom-up cost-based compensation analysis would generate exactly the type of "fair" compensation required by the 1996 Act. And even the PSPs' evidence clearly shows that the costs of LEC PSPs, who own the vast preponderance of payphones, are substantially lower than the costs of independent payphone owners ("IPPs"). Thus, any "fair" analysis of payphone costs must take account of, and principally reflect, the LECs' costs.

Finally, even if the Commission, contrary to all common sense and logic, fails to modify its approach to payphone compensation, errors in the current analysis overstate the current compensation rate. These errors must be corrected.

Argument

I. Payphones Are Not Competitive At The End User Level.

Ad Hoc and the Consumer-Business Coalition support AT&T's position that, contrary to the assumption in the Second Report and Order, the payphone market is simply not competitive at the end user level. As Ad Hoc (p. 3) correctly states:

> "The pay telephone industry currently is one based on locational monopolies. Unlike loaves of bread on a grocery store shelf, pay telephones provided by different [PSPs] seldom line the walls at a single location, allowing an individual to comparison shop. To the contrary, customers who need a payphone take what they can get, where they can get it -- which typically means no choice at all at a particular location."[2]

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[2] See also Consumer-Business Coalition, p. 4 ("the payphone industry can indeed be viewed as a bottleneck because the competition that does exist does not constrain coinless call prices"); Sprint, p. 2. Contrary to the LEC Coalition's

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Similarly, both the Consumer-Business Coalition (pp. 4, 8-9) and Ad Hoc (pp. 3-4) demonstrate that, for toll-free calls -- which are a large majority of all compensable calls -- there is no direct relationship between the ultimate buyer (the toll-free service subscriber) and the PSP. Even the intermediate relationship between the carrier and the PSP is ineffective to control the compensation rate, because toll-free callers simply have no reason to care about the costs their calls will impose.[3] Moreover, there are numerous reasons why blocking, even if physically possible, may not be practical for either the carrier or the toll-free subscriber.[4]

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claim (pp. 5-6), it is irrelevant that there is competition among PSPs to be the sole supplier of payphones at individual locations. The critical question is whether real customers in real-world situations can actually exercise a choice of payphone suppliers. The facts show they cannot.

[3] AT&T Comments on and Opposition to Petitions for Reconsideration, filed January 7, 1998 ("AT&T January 7, 1998 Comments"), p. 4; Mtel, p. 4; TRA, p. 3.

[4] See, e.g., Ad Hoc, p. 4; Consumer-Business Coalition, p. 7; AT&T January 7, 1998 Comments, p. 5, Metrocall, p. 9. Thus, contrary to the LEC Coalition's assertion (p. 5), there is in fact a "serious challenge" to the presumption that the ability to block calls could impose effective market discipline on PSPs -- especially when the compensation rate begins to "float" in 1999 (see Consumer-Business Coalition, p. 8; see also n.15 below). Moreover, APCC (p. 36) is wrong that carriers do not need ANI coding digits to implement blocking. Even if the carriers ultimately expend the huge sums needed to develop databases

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In the face of these evidentiary facts, the PSP's have offered no evidence that there is any payphone competition at the end user level.[5] Accordingly, the LEC Coalition's reference (pp. 5-6) to predictive judgements about the anticipated development of competition based upon evidence that was offered in 1996 rings hollow in the face of proof -- a year later -- that there have been no actual changes in the marketplace.[6]

Nor do the PSPs' offer any proof that the market can impose effective discipline on persons who make toll-free

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that identify whether to block calls from specific payphones, it would be incredibly inefficient to route all toll-free calls through that database. Thus, carriers must have the ANI identification digits, so they can route only payphone-originated calls through such a database.

[5] The LEC Coalition (p. 4) merely asserts that the local coin market is competitive. APCC's claims (n.14) that the local coin market is competitive at the point of sale rest on its statement, for example, that "the District of Columbia has three competitive airports." This simply shows how far the PSPs must stretch to find any competition for end users -- ultimately relying on the absurd argument that consumers might decide which airport to use based on the price of coin calls from payphones at those airports (see TRA, p. 3). This hardly supports APCC's claims (pp. 9, 12) that consumers can typically "find a payphone with a price more to their liking," or that there is a "well-functioning competitive market."

[6] Thus, even if the Court of Appeals had endorsed the use of a market-based approach for payphone compensation -- which it clearly did not (see AT&T Petition, pp. 3-4) -- the Second Report and Order's failure to address evidence that the earlier prediction was not coming to pass is itself improper.

calls. APCC's effort (pp. 8-9) to argue that the market can effectively constrain toll-free callers falls particularly flat. First, from an economic perspective, the mere fact that the payphone compensation obligation rests on the carrier instead of the caller makes the use of the payphone an "intermediate," rather than a final good. No amount of argument can change this fact. Second, the example APCC offers (i.e., a box-office ticket service charging a separate payphone surcharge on orders placed from payphones) is fanciful. 800 subscribers could not possibly impose such a charge unless they were aware in real time that the call is being placed from a payphone. However, APCC does not explain how the toll-free subscriber could know this fact in time to include it on the customer's bill, which is typically paid in the course of the telephone transaction. Contrary to APCC's apparent implicit suggestion, the ANI coding digits that identify payphone calls are not passed to the vast majority of toll-free subscribers.[7]

[7] Only customers with sophisticated call processing centers and ISDN access lines are capable of receiving such information.

II. Local Coin Calls and Coinless Calls Are Independent Goods In Different Markets; Thus, It Is Irrational To Use An Avoided-Cost Approach Based On The Market Price Of Local Coin Calls To Set The Compensation Rate For Coinless Calls.

It was irrational to rely on an avoided-cost approach based on the market price for local coin calls, because local coin calls and coinless calls are independent goods that are in different markets and do not share cross-elasticities of demand.[8] As AT&T showed, a local coin call provides customers with a complete product: an end-to-end phone call. In contrast, payphone compensation for coinless calls is only intended to compensate PSPs for the use of the payphone instrument and the local line to the nearby central office. The rest of the coinless call must be provided through capabilities provided by the toll carrier. APCC's response to this simple truth is incoherent. In contrast, the LEC Coalition's response is diametrically opposed to its own recently stated views. Further, the PSPs' continued insistence that a market-based approach is necessary to develop a fair compensation rate is simply wrong.

APCC (pp. 8-9) argues that the two products at issue are "similar," so that the market price for a local coin call is a reasonable surrogate for the compensation for coinless calls. But no amount of sophistry can obscure the

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8 AT&T Petition, pp. 4-7; MCI, p. 2; Mtel, p. 4.

fact that mere use of a payphone set and line -- the only items covered in per-call compensation -- are not the same as a completed call. Thus, as AT&T showed (pp. 5-6), it is improper to base the compensation rate for coinless calls on an avoided-cost analysis that looks at the market price of a local coin call and subtracts costs that are attributable only to local coin calls.

The LEC Coalition's argument here, in contrast, flatly contradicts its own recent arguments to the Commission. Although it (p. 2) now proudly states that the use of the avoided-cost methodology in the Second Order and Report "was fundamentally sound," the coalition took a completely opposite view only a few months ago. In its initial comments on remand, the coalition's economist argued against an avoided cost analysis, expressly stating that the "us[e of] an avoided-cost model is not economically appropriate."[9] He reached this conclusion precisely because he recognized that "avoided cost approaches make the implicit assumption that the two competing services will be very close substitutes . . . [but i]n the current situation, dial-around and subscriber 800 calls are not close substitutes to

[9] LEC Coalition Comments, dated August 26, 1997, Hausman Declaration, p. 8.

local coin calls."[10] Thus, the coalition itself demonstrated that AT&T's position is correct, even before AT&T's expert economist submitted his reply affidavit.[11]

Furthermore, the coalition does not even respond to the fact that, unlike resale services that are clearly related in demand, the market demands for local coin and coinless calls from payphones are not related, and there is no cross-elasticity of demand between them.[12] Without such a relationship, there is no basis to assume that the "market" rate for local coin calls is a reasonable starting point for determining a fair compensation rate for coinless calls.[13]

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[10] Id., pp. 7-8. The coalition's allusion (n.4) to the fact that the 1996 Act requires the use of an avoided-cost approach for resale (i.e., identical) services is thus simply irrelevant in this context.

[11] This rebuts APCC's erroneous claim (n.7) that it did not have an earlier opportunity to respond to this argument.

[12] See AT&T Petition, p. 5; MCI, p. 6. MCI (id.) is also correct that the elasticities provided by Dr. Hausman are miscalculated, and in some cases are based merely on anecdotal estimates.

[13] APCC (p. 5) is wrong that AT&T did not propose an alternative market-based rate. In fact, AT&T suggested that a viable market-based, carrier-paid compensation rate could be based on the dial-around compensation amount directly agreed to by PSPs and AT&T in 1995, adjusted to take account of the fact that the "market value" of 800 subscriber calls is substantially less than the "market value" of dial-around calls, because of their very different market prices. This market analysis yielded a weighted per-call compensation rate of 10.67 cents per call -- which may well be less than a properly calculated cost-based rate. AT&T Reply, pp. 12-14. By contrast, APCC's argument (pp. 2, 17) that the Commission could have chosen from several "correct" or

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The coalition also ignores that the use of "Ramsey pricing" principles to account for differences in demand would assure that PSPs receive a monopoly compensation rate for coinless calls.[14] Accordingly, the most appropriate way to determine a per-call compensation rate that is fair to consumers, as well as to PSPs and carriers is to develop a proper cost-based analysis.[15]

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"equally viable market-based surrogates" is clearly wrong. APCC's argument ignores that all of the surrogates it suggests (0+ commissions, 0- transfer rates and toll call surcharges) relate solely to dial-around operator services calls. None of the proposed surrogates relates to 800 subscriber calls, which are a large majority of all compensable calls and which command substantially lower prices. Thus, contrary to APCC's statement (p. 18), the current rules cannot represent a "compromise."

[14] AT&T Reply, dated September 9, 1997 ("AT&T Reply"), n.14.

[15] AT&T also notes that if the Commission persists in applying a market-based approach to compensation, it will be required to resolve many new problems that will arise when the compensation rate is permitted to "float" with the local coin call price at each payphone. For example, there are no rules in place governing how PSPs must notify carriers about changes in their rates, which may vary during the middle of a compensation tracking period, and even by time of day or day of the week, at over 2 million payphones. Such rules will be necessary to enable carriers to calculate payments to PSPs and to implement blocking. In addition, in order to pass on these variable rates to their 800 subscribers, carriers would have to invest in significant enhancements to customer billing systems. They would also need to develop more sophisticated blocking capabilities to accommodate the inevitable customer demand for selective call blocking capabilities targeted to excessively priced payphones.

III. A Proper Bottom-Up Cost Analysis Is Fair And Will Yield A Significantly Lower Compensation Rate, Because Such An Analysis Must Be Principally Based On The Costs Of LEC PSPs.

A. A Bottom-Up Cost Analysis Is Fair To All Parties.

The PSPs cannot seriously argue with the proposition that a properly calculated bottom-up cost analysis would generate a fair per-call compensation rate.[16] Indeed, to do so would be contrary to established economic principles and regulatory rules.[17] Moreover, AT&T agrees with the LEC Coalition (p. 4) that, under a cost-based analysis, coinless calls should bear their fair share of the joint and common costs of coinless and coin calls.[18] It is only the LECs' definition of those costs that is problematic. Further, contrary to the PSPs' claims, a proper cost analysis must be principally based on the costs of the LEC PSPs, because they own the vast majority of payphones, and the record shows their costs are significantly lower than IPPs' costs. Thus, the bottom-up cost analysis in the Second Report and Order is not a valid assessment of PSP costs.

The PSPs' arguments against a bottom-up cost-based rate are premised on their familiar mantra that any reduction in

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16 AT&T Petition, pp. 7-12; Ad Hoc, p. 2; TRA, p. 5; Consumer-Business Coalition, pp. 2-3.

17 AT&T Petition, pp. 7-8; Ad Hoc, p. 2.

18 See also Consumer-Business Coalition. p. 4.

their compensation would threaten the "widespread deployment of payphones."[19] But as AT&T and others have shown, the PSPs have stretched this claim beyond all reasonable proportion. It is a truism that high payphone compensation will likely lead to more payphones and lower compensation might cause PSPs to deploy fewer payphones voluntarily -- i.e., in the absence of other economic support. But neither the PSPs nor the Second Report and Order has addressed the fact that a cost-based payphone compensation rate, combined with payments from location owners (as has been the custom with semi-public phones[20]) and economic support from the "public interest" payphones specifically provided for in Section 276(b)(2) would clearly meet the Act's twin objectives of fairness and widespread deployment.[21] Even the LEC Coalition (p. 3) ultimately concedes that the Act only contemplates "an efficient supply of payphones."

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[19] See APCC, pp. 3, 5; LEC Coalition Petition for Reconsideration, dated December 1, 1997 ("LEC Coalition Petition"), p. 2 (cost-based pricing "is a threat to the widespread deployment of payphones").

[20] LECs have reported that semi-public phones, which are supported by payments from location owners, represent as much as 20% of their base of phones.

[21] See AT&T Petition, pp. 9-10; Consumer-Business Coalition, p. 3; MCI, p. 2; TRA, p. 6. In addition, the LEC Coalition (p. 6) is wrong that AT&T has ignored the fact that LEC access subsidies were eliminated. The current compensation rate generates payphone compensation that is many hundreds of millions of dollars more than the LEC access subsidies.

Finally, the PSPs do not (and cannot) offer a shred of evidence that their frequent reference to this single phrase in the Act was intended to increase the supply of payphones at the expense of excessive (i.e., unfair) charges to carriers and consumers.[22]

B. A Proper Cost-Based Analysis Should Be Based Principally Upon LEC PSPs' Costs, Because They Own the Vast Majority Of Payphones.

The Second Report and Order relied on IPP data to the exclusion of key data from LEC PSPs, who own the vast majority of all payphones. This was error.[23] Failure to base the decision on the LEC costs in the record (and to require comparable data from other LEC PSPs) unfairly skewed the compensation rate too high.[24]

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[22] The PSPs' arguments against applying a forward-looking cost-based methodology (see LEC Coalition Petition, p. 3) are refuted in detail in AT&T's Petition (pp. 8-12). In sum, there is no doubt that both courts and the Commission have held that forward-looking costs are the only economically significant costs, and that such costs best reflect the workings of a competitive market. Second, it is not difficult to develop such a cost-based analysis provided all of the pertinent data are made available by LEC PSPs. Third, both sworn customer statements and the PSPs' efforts to rely on "Ramsey pricing" indicate that the payphone marketplace is not competitive at the end user level. Finally, a cost-based analysis will indeed allow PSPs' to recover all costs that are actually joint and common to both coinless calls and local coin calls.

[23] AT&T Petition, pp. 12-16; AirTouch, p. 8; MCI, pp. 2-3; Consumer-Business Coalition, p. 2.

[24] The PSPs' claims that the Second Report and Order could legitimately reject the LEC data because IPP data is somehow

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The record shows that IPPs' costs are $242 per payphone month, including commissions.[25] In contrast, LEC PSPs' costs are substantially lower. Sprint's average monthly costs for its payphones are only about $100 per phone, also including commissions.[26] Moreover, one of the Illinois Commerce Commission proceedings referenced by APCC determined that Illinois Bell's average monthly costs per

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"more competitive" than LEC data make no sense, and simply permit the PSPs to hide behind the costs of the highest-cost companies. In addition, APCC's claim (p. 24) that the IPPs "represent the best hope of service to marginal payphone locations" is belied by the fact that reported IPP call volumes (about 700 per month) are significantly higher than reported LEC PSP volumes. Indeed, Peoples' December 31, 1996 10K Statement (p. 4) states that the company "believes that substantially all of its public telephones . . . are in high traffic locations." See also CCI's June 30, 1997 10K Statement, p. 2 (CCI's payphones "are located where there is a significant demand for payphone services"). In addition, the LEC Coalition's implication (p. 11) that the Second Report and Order found that AT&T's cost figures were similar to IPPs' figures in all respects is simply wrong. The cited paragraph from the order references only a single type of costs.

[25] Second Report and Order, ¶ 49.

[26] See AT&T Petition, p. 13. There is absolutely no basis for APCC's statement (p. 29) that Sprint "seems unconvinced by its own numbers." The fact that Sprint cited to other carriers with even lower costs does not infer any uncertainty about its own data. Indeed, APCC (p. 25) has completely misunderstood the definition of a "bellwether" provider. Such a provider is the carrier with the lowest costs, not the highest costs, as APCC would prefer. The bellwether carrier (or bellwether rate) provides a benchmark against which other carriers are compared -- and sets a rate above which other, less efficient carriers will not be compensated.

payphone were only $89.92 per month.[27] Thus, if the Commission wishes to use the Illinois data as APCC proposes, it must also recognize that these unchallenged LEC PSP costs are less than 40% of the costs reported by IPPs.[28]

Both APCC and the LEC Coalition dispute some of the SBC cost data that AT&T provided in its Petition, but these claims are largely unavailing.[29] Indeed, even if adjustments are made to the SBC cost data, they still fall directly in line with the costs of Sprint and Illinois Bell. As the attached Reply Affidavit of David Robinson ("Robinson Reply Aff.") demonstrates, a proper view of the specific

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[27] AAA Coin-Phone Systems, Inc, et al. v. AT&T et al., ICC Docket No. 92-0400, Order (October 3, 1995), pp. 12, 16, cited by APCC, p. 25 ($89.92 figure included "the payphone, customer-owned payphone line rates, the end user common line charge, screening, outgoing blocking, 9-1-1 surcharge, Illinois Telecommunications Access Corporation surcharge, coin collection, commissions and sales tax"). The Illinois Commission accepted its Staff's surrogate cost study, but modified the per-call rate recommended by the Staff based upon differences in derived call volumes.

[28] APCC (pp. 27-28) offers some hypothetical comments on why the 1997 NYNEX study in Massachusetts -- which showed costs of only 16.7 cents per call -- should be rejected. Some of the APCC's claims (e.g., "NYNEX does not appear to have devoted a great deal of care to the preparation of the Massachusetts study") are particularly odd, given that the study is proprietary and was not disclosed. It should also be noted that even if the LEC Coalition's estimate of 2.2 cents per call for common costs were added to the Massachusetts figures (See LEC Coalition, Arthur Andersen Report dated January 8, 1998 ("Andersen Report"), pp. 3, 7), NYNEX' total costs per call, including commissions, would still be only 19.9 cents. See also LEC Coalition, p. 12.

[29] APCC, pp. 29-32; LEC Coalition, pp. 12-13.

adjustments suggested by the LEC Coalition and APCC would result in a maximum total cost of no more than 23.8 to 24.3 cents per-call, including commissions. After commissions and coin-related costs are subtracted, the maximum cost-based compensation level would be only 15.9 to 16.4 cents per call.[30]

APCC's other criticisms of the SBC data lack any foundation. First, APCC (p. 30) appears to assume that SBC might deliberately misrepresent ("play down") its costs to the potential purchaser. The risks imposed by the securities laws would seem to outweigh the incentives APCC attributes to SBC in this case. Second, despite APCC's suspicions (id.), AT&T produced all the SBC data it received that was marked "Project Quintet." (Robinson Reply Aff., n.2). Finally, APCC (id.) suggests that the SBC data are out of date, but the Illinois data APCC itself commends to the Commission are of a similar vintage.

Accordingly, the Commission should now consider the most significant evidence in determining PSPs' costs -- the consistent data showing that LEC PSPs have significantly lower costs than IPPs. If the Commission relies on these bellwether cost data, it will be able to establish a per-

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[30] Robinson Reply Aff., ¶ 3.

call compensation rate that is reflective of PSPs' actual efficient costs and fair to all interested parties.

IV. **Even If The Commission Does Not Adopt A Cost-Based Approach, The 28.4 Cent Compensation Rate Is Too High, And There Is No Basis To Increase The Per-Call Compensation Rate Above That Level.**

Even if the Commission does not adopt a cost-based approach to payphone compensation -- as it clearly should -- AT&T's Petition showed that the "market-based" analysis of the Second Report and Order was arbitrary and should be changed in several respects. The PSPs' contrary claims do not refute AT&T's showing.

First, AT&T's Petition showed (pp. 16-17) that the use of a 35 cent local coin rate as the starting point was too high and resulted in excessive compensation for coinless calls.[31] The PSPs do not dispute that they are now able to charge any rate they wish for local coin calls, which has resulted in an enormous increase in their overall revenues -- even without the addition of a totally new revenue stream, i.e., compensation for toll-free calls.[32] Moreover, the PSPs' do not address the fact that a 35 cent local coin rate generates a huge return on calls whose total efficient

[31] See also AirTouch, p. 7.

[32] For a PSP that had been charging the typical regulated rate of 25 cents, recent increases to 35 cents for local coin calls represent a 40% increase in revenues for a large majority (70%) of PSPs' traffic.

costs are well below that amount.[33] Indeed, the SBC data show that even on a 25 cent local coin rate it receives a total contribution of 1.6 to 2.1 cents per call.[34]

AT&T's Petition (pp. 18-19) also showed that the analysis of avoided line costs in the Second Report and Order is inconsistent with its treatment of coin set costs. Far from being "incoherent" (APCC, p. 21) AT&T showed that the very cost figures provided by the APCC itself supported a higher deduction for line costs. Moreover, although the LEC Coalition (p. 14) argues that the order relied on the derived figures AT&T had presented in its initial comments, AT&T's Reply withdrew such figures in the face of more reliable evidence from the PSPs themselves.[35] Thus, AT&T correctly showed that the costs for local call completion should be increased by several cents, from 2.75 cents to the 5 to 8 cent level demonstrated by the PSPs.[36]

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[33] AT&T's Petition (pp.17-18) also showed that the avoided-cost approach enabled PSPs to retain excess profits (contribution).

[34] Robinson Reply Aff., ¶ 14.

[35] See Reply Affidavit of David Robinson, dated September 9, 1997, ¶¶ 10-11 (noting that AT&T's initial analysis had been "indirectly" calculated, and that AT&T's analysis was as "in error" due to the "direct" evidence on tariffed call completion costs submitted by the PSPs); see also AT&T Reply, n.47 (PSPs' own data show AT&T's earlier estimate was "understated").

[36] APCC's argument (n.23) regarding LECs' costs for network usage is irrelevant. What is relevant is the retail price

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Finally, even the PSPs concede that the cost data regarding Flex ANI implementation relied upon in the Second Report and Order were excessive.[37] Moreover, the costs now are at a level that they should be treated as an implementation cost for PSPs -- indeed the carrier's implementation costs for tracking likely exceed the ANI costs (AT&T Petition, pp. 19-20). In all events, contrary to the PSPs' claims,[38] the costs related to Flex ANI must be reduced substantially. Even if the $61 million needed to implement Flex ANI in equal access offices were spread across only coinless calls, there should be no more than a 0.5 cents added for Flex ANI implementation.[39] Thus, the per-call compensation rate must be reduced by a minimum of 0.5 cents.[40]

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PSPs must pay to use LEC services to complete local coin calls.

[37] APCC, p. 22; LEC Coalition, p. 20.

[38] APCC, p. 22 (Flex ANI costs may net out if the costs are applied only to coinless calls); LEC Coalition, pp. 20-21 (Flex ANI costs should be increased from 1.0 cents to 1.9 cents).

[39] The LEC Coalition (n.11) concedes this amount is correct.

[40] PSPs' claims for higher costs must be rejected. As AT&T showed in its January 7, 1998 Comments (pp. 12-14), coin mechanism costs are not joint costs with coinless calls (see also MCI, pp. 3-4; Sprint, pp. 5-6). Moreover, there is simply no basis to increase consumers' costs for PSPs'

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Conclusion

For the reasons stated above and in AT&T's Petition, the Commission should reconsider the Second Report and Order and adopt a true bottom-up cost-based compensation rate for per-call compensation that is based principally on the costs of LEC PSPs. If the Commission persists in applying an economically inefficient "top down" avoided-cost approach, it should recalculate the per-call compensation rate to (i) reflect a starting rate of 25 cents; (ii) assure that the rate does not include excessive profits; (iii) increase the avoided cost for local call completion to 5 to 8 cents, and (iv) eliminate the cost add-on relating to Flex ANI

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collection and bad debt expense (AT&T January 7, 1998 Comments, pp. 14-18).

implementation. In all events, the Commission should reject the PSPs' baseless requests for even higher per-call compensation.

Respectfully submitted,

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January 20, 1998

APPENDIX A

LIST OF COMMENTERS - CC DOCKET NO. 96-128
Oppositions to Petitions for Reconsideration

Ad Hoc Telecommunications Users Committee ("Ad Hoc")
AirTouch Paging ("AirTouch")
American Public Communications Council ("APCC")
Communications Central Inc. ("CCI")
Consumer-Business Coalition for Fair Payphone-800 Fees ("Consumer-Business Coalition")
MCI Telecommunications Corporation ("MCI")
Metrocall, Inc.
Mobile Telecommunication Technologies Corp. ("Mtel")
Peoples Telephone Company, Inc. ("Peoples")
RBOC/GTE/SNET Payphone Coalition ("LEC Coalition")
Sprint Corporation
Telecommunications Resellers Association ("TRA")
A. John Yoggerst

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In the Matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996	)))))))	CC Docket No. 96-128

REPLY AFFIDAVIT OF DAVID C. ROBINSON

State of New Jersey)
): ss
County of Somerset)

DAVID C. ROBINSON, being duly sworn, deposes and says:

1. I am a District Manager in AT&T Corp.'s Consumer Sales Division, responsible for managing all aspects of AT&T's payphone station placement operations. On August 26, 1997, and again on September 9, 1997, I submitted affidavits in support of AT&T's comments in CC Docket 96-128. On December 1, 1997, I submitted an affidavit in support of AT&T's Petition for Reconsideration. In that latter affidavit, I discussed the payphone costs of SBC Corporation ("SBC"). The purpose of this affidavit is to respond to comments by other parties regarding the SBC data.

2. The SBC payphone data were provided under the name of "Project Quintet." Contrary to some commenters' claims, these data were not provided to discredit the Commission's efforts to determine a fair compensation rate for payphone